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S E C R E T SECTION 01 OF 04 ROME 002477

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TREASURY FOR U/S LEVEY, CEDDY, MMILLERWISE,

E.O. 12958: DECL: 12/03/2017

TAGS: [EFIN](#) [IR](#) [KNNP](#) [PARM](#) [PREL](#) [IT](#)

SUBJECT: (S) ITALIANS TELL U/S LEVEY "THERE IS GROWING  
CONCERN OVER IRAN"

REF: A. ROME 2394

[1](#)B. SECSTATE 160808

Classified By: Econ Counselor William R. Meara  
for Reasons 1.4 (b) and (d).

[1](#)1. (S/NF) Summary: On November 28, Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey pressed senior Italian officials to take additional measures to protect the international financial system from abuse by Iranian entities and individuals. U/S Levey passed detailed information on Banks Melli and Mellat and the Islamic Revolutionary Guard Corp's (IRGC) deceptive use of international financial systems to support proliferation and terrorist-related activities. Italian officials all reported that there was "growing concern" in the government over Iranian actions, but did not offer specifics. Italy's Export Credit Agency, SACE, said that new export credits to Iran had ceased in 2007, but made clear that they would allow existing projects to continue in order to recoup their 2.1 billion Euro investment. Central Bank Director General Saccomani announced that the Bank of Italy had just issued a new warning on doing business with Iran. Expressing concern over Iran's continued misuse of the banking sector, Finance officials suggested working closely to prepare for the February Financial Action Task Force (FATF) plenary. MFA Political Director Terzi agreed to consider Italian support for additional EU sanctions on Iranian banks. End Summary.

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Export Credit Agency: No New Export Credits,  
But Existing Projects to Continue  
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2.(C) U/S Levey briefed SACE President Ignazio Angeloni and Chief Operating Officer Raoul Ascari on the growing trend of the international business community's withdrawal from Iran. (NOTE: Angeloni is dual-hatted as Chief of the International Department at the Ministry of Finance.) Citing his 11/27 meetings in Milan, however, Levey said that the Italian banks, Mediobanca and Intesa San Paolo Banks, reported that they felt obligated to maintain their existing contracts with Iran because most of their projects are backed by SACE's export credit guarantees. The banks fear, Levey reported, that if they withdrew from doing business with Iran, SACE

would be vulnerable to an Iranian default and could therefore sue Italian banks for putting SACE's equities at risk.

¶3. (C) Angeloni dismissed the idea that SACE would sue Italian companies, suggesting that SACE faces a greater risk of being sued by Iran or by Italian exporters if Italian banks were to break their existing contracts with Iran. Angeloni asserted that SACE had nonetheless withdrawn significantly from Iranian projects, noting that SACE made an executive decision to not issue new export credits to projects in Iran, a policy which took effect in January 2007 and which SACE has not disclosed publicly for competitive reasons. Following Secretary Paulson's briefing on Iran during the G-7 ministerial in Singapore in September 2006, Angeloni said that SACE conducted an extensive review of all contracts with Iran concluded within the last seven years, and determined that "98 percent" revealed no problems or risks; the remaining one to two percent needed "further analysis." Commenting that Italy's policy is more forward-leaning than its European and Asian competitors, Angeloni implied that other European export credit agencies are still active in Iran and that Russia and the Gulf States cause the most concern. Complaining that SACE and the Italian economy as a whole will pay the a price in the medium- to long-term because of lost business opportunities, Angeloni argued that only a UN ban on new export credits would level the playing field for all export-credit agencies.

¶4. (C) Regarding the recent U.S. designations of Bank Melli, Bank Mellat, and the IRGC, U/S Levey asked how SACE would handle projects involving these entities. Ascari confirmed that SACE has contracts with Banks Melli and Saderat, but could not state whether any Italian exporters were working

ROME 00002477 002 OF 004

with the IRGC-controlled or affiliated companies. Ascari noted that all Iranian banks have learned from the Bank Saderat experience and have prepared the necessary papers to change the terms of contracts to euros versus dollars, but Ascari predicted that SACE face difficulty receiving repayment should UN or EU sanctions be imposed on Banks Melli and Saderat. Levey summed up the meeting by saying it appears a ban on new credits would not be painful to their operations, but took note of SACE's concern that existing projects be allowed to continue.

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Bank of Italy Advises Italian banks of Iranian Risk  
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¶5. (S/NF) In reviewing the international community's growing concern over Iran's proliferation activities, Levey shared information on the IRGC and Banks Melli and Mellat with Director General of the Bank of Italy Fabrizio Saccomani. Saccomani said that Banks Melli and Mellat have no branches in Italy, but acknowledged that the two banks conduct business in Italy. Saccomani noted that the GOI is increasingly concerned over Iranian actions; he told U/S Levey that the Bank of Italy had sent out an advisory to the Italian banks on November 22 cautioning them about doing business with Iran.

¶6. (C) Saccomani told U/S Levey that his organization will soon absorb 450 people in a move to transform the Foreign Exchange Office into a financial intelligence unit. (Note: Italy's Foreign Exchange office presently monitors all financial transactions over 10,000 Euros.) The director of the new unit will be appointed by the Central Bank Governor and will be accountable to him. Saccomani explained that this move would centralize authority within the Bank and allow for better coordination among bank regulators. Saccomani said these changes would take effect on January 1.

¶7. (S/NF) Turning to the issue of Bank Sepah, Saccomani said that Sepah is still under administrative control and that the Bank of Italy will re-examine its status once the one-year

time period expires in May of 2008. Saccomani balked at U/S Levey's suggestion that Sepah be shut down and assured U/S Levey that under current conditions, it would be impossible for Bank Sepah to resume normal operations. He added that the one reason the bank is open is so it can repay its creditors. Noting that the UN licensing process delayed the Rome branch's receipt of money from Bank Sepah's headquarters in Tehran, Saccomani said that Bank Sepah Rome had finally received two million euros from Tehran on November 7 and would begin repaying creditors soon. Pierpaolo Fratangelo, a senior aide to Saccomani, said that Bank Sepah still had 30 million Euros of debt to be paid out and estimated that the repayment process would take six months. Levey speculated that Bank Sepah may drag its feet in repaying its final debts if these debts are the only thing keeping the Bank of Italy from shutting it down. Fratangelo conceded that this was a possibility and that the BOI would more seriously consider revocation of the bank's license if it suspected as much.

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Ministry of Finance Eager to Work within  
FATF on Iran  
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18. (S/NF) Under Secretary Levey thanked the Dr. Vittorio Grilli, Director General of the Treasury and Dr. Giuseppe Maresca, DG for Financial Crimes at the Ministry of Finance for Italy's support in convincing members of the FATF to issue the recent statement about Iran's lack of an AML/CFT regime. Levey said the statement has been a useful in convincing skeptical countries about Iran's threat to the international financial system. As a new member of FATF, the Chinese in particular took note of the statement and recently told Levey that they are increasingly concerned that Chinese banks may find themselves involved in Iran's proliferation efforts. Grilli agreed that the FATF statement was a good resolution that was in line with UN action on Iran. While

ROME 00002477 003 OF 004

deferring to the Ministry of Foreign Affairs on Italy's overall policy, Grilli said that Italy would be reluctant to act alone, as Italian creditors should not be unfairly disadvantaged over their competitors. Grilli also argued that, politically, Italy can be a helpful channel of communication with Iran, as "Iran shouldn't only be hearing from China." Levey responded that nations around the world, including South Korea, China and Japan have recognized the threat posed by Iran and are taking steps to both protect their financial systems and join the international effort to apply pressure on Iran.

19. (S/NF) Touching on the long-standing dialogue over Bank Sepah's Rome branch, Levey said that the international community learned from its experience with the UN designation of Bank Sepah and would apply those lessons learned in the event of additional sanctions against Iranian banks. Grilli agreed that the issues surrounding third parties were resolved satisfactorily with respect to Bank Sepah, but Grilli stressed that any new sanctions should carve out prior contracts as in previous resolutions. U/S Levey shared information on Banks Melli and Mellat and asked for Italy's support within the EU on additional sanctions. Grilli agreed to review the information and said "we agree on the outcome," but have some differences over the modalities. Maresca noted the upcoming FATF plenary, and suggested that the USG and Italians carefully lay the groundwork before the February meeting to determine next steps on Iran following the October statement.

110. (S/NF) In a side conversation before the meeting, Maresca told U/S Levey that there is growing concern in the Italian government over Iran's actions. Maresca said that the Iranian Ambassador to Italy complained to the MoF about the FATF statement, but Italian officials urged the Ambassador to consult the Central Bank of Iran about the deficiencies identified in the statement and inform the MOF of any

information to counter the statement. Since this meeting, the Iranian Ambassador has not been in contact with MOF officials and Maresca said he believed the Ambassador's apparent inaction was due to instructions from Tehran. (Note: Post does not know when these conversations occurred.)

¶11. (C) On a separate issue, Grilli expressed frustration that the USG moved to de-list the Italian national Nasredeen from the 1267 Sanctions List, as Italy viewed him as a dangerous criminal. U/S Levey expressed surprise with this view, as the USG understood that Italy supported the delisting, but he agreed to look into the matter.

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Ministry of Foreign Affairs Concerned about Iran;  
but Unhappy with P5 1 Construct  
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¶11. (S/NF) MFA Political Director Giulio Terzi and Director General for Mediterranean and Middle East Affairs Cesare Ragaglini called Iran's lack of progress within the IAEA process a "great concern," and said that Italy is ready to support a third UNSCR. They also expressed a willingness to work in parallel in the EU to maintain pressure on the Iranian regime "until compliance is achieved." However, both underscored Italy's preference that additional sanctions on Iran be contained in a new UNSCR -- even a weak resolution would have a significant impact on Iran in demonstrating continued unanimity of the international community. EU measures alone would not be successful, Ragaglini argued, noting that other countries, i.e. China could still trade with Iran. Ragaglini noted that trade between Italy and Iran dropped from 4 billion Euro a year to today's 500 million. As the data indicates, Terzi complained that Italy is paying a significant price on Iran, but has not been allowed to participate in the political decision making process. In the medium-term, sanctions on Iran will harm the Italian economy at least as much as the German economy, and Ragaglini said Italy should be recognized for its sacrifice by being included in the negotiations. Terzi encouraged the USG to coordinate at the G7 level to ensure that stakeholders like

ROME 00002477 004 OF 004

Italy and Japan have a role in the decisions.

¶12. (S/NF) Citing his experience as Italy's Ambassador to Iraq from 1996 to 1999, Ragaglini argued that sanctions are not effective. Ultimately, Iranians will not blame the regime, he said "they'll blame the West." Ragaglini expressed the belief that Iran is suffering not from sanctions but from the regime's "clear mismanagement" of the economy. Recent reshuffling of Iranian government officials is an indication not of a regime under pressure, but that the regime is aligning itself closer together as its first priority is preservation of the regime at all costs. Ragaglini also complained that sanctions cannot address the "UAE role" in helping Iran stay afloat. Levey countered that the new sanctions, unlike previous sanctions regimes, are targeted and conduct-based, therefore they are more effective in convincing the private sector to retreat from dealings with suspect entities. Levey pointed to decisions taken by major financial institutions around the world, including Italian banks, as compelling evidence that sanctions have drawn attention to Iran's illicit activity and are effectively applying pressure on the regime to change its behavior. Levey shared information on Banks Melli and Mellat and the IRGCs involvement in proliferation and urged the GOI to support additional sanctions within the EU. Terzi said that the GOI would examine this information carefully.

¶13. (U) Under Secretary Levey cleared this cable.  
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